



How to Get Out of Consumer (credit card) Debt The Debt Elimination Tool

The following information comes from revised edition of my 2002 best-selling book, *Wealth On Any Income*. Copies can still be purchased through Amazon or directly from me.

While this information is how to get rid of consumer and credit card debt, you need to understand two very important concepts.

1. Not all debt is bad. Consumer and credit card debt when balances are carried from month to month ARE BAD. If you pay off the balances in full each month, then it is not bad debt. You might have an issue with overspending, but not with debt. Good debt shows up when the cost of funds is less than the return on an investment. An example would be the mortgage on rental real estate; house, apartment building, strip center, industrial building, etc.
2. Putting all your focus on paying off debt and delaying a systematic investment program can be very, very costly. An example would be paying off a \$6000 credit card debt over two years, and then starting an investment program that could earn a 12% annual return. (This can be done, but certainly not in the bank.) That two year delay would create a lower investment account of about \$200,000 in 30 years. In other words, paying off a \$6000 debt could cost you \$200,000 because you waited two years to start investing.

I have worked with several Certified Public Accountants helping them through bankruptcy. Just because someone is a CPA does not mean they know how to handle money effectively. They can be great at filling out tax forms, but that does not mean they know about business, money or investing.

I'll be explaining the best way to get rid of the debt. **Best** does **not** mean easiest or cheapest. Best means a method that is part of a new habit, attitude and skill—a skill that will prevent debt from coming back again. And it will allow you to save hundreds, maybe thousands, of dollars in interest payments.

You could be at one of four levels. You may have no issues with credit card debt. This would be level one of four levels. At the first level either you have no credit card, or if you charge something on a credit card, when the bill comes in you pay off the balance in full each month. I'm not going to be dealing with that here. If that's your situation, you don't have a problem with credit card debt. There may be a problem with shopping, but not debt.

At level two, you may have some debt you're carrying, and some extra money you could apply to get rid of the debt. The third level is where there is no extra money beyond the minimum payments required. And the fourth level is where you don't even have the money to make the minimum payments. In this report I will be focusing on level two and making payments beyond the minimum due.

Here is the concept: Let's say you've got an extra \$100 per month you could apply toward your credit cards, and let's say you had 10 cards.

Would it make sense to send an extra \$10 to each creditor? Not really. What I'm going to suggest is you take the extra \$100 and you send it all to one creditor. And, the one you pick is the one that has the lowest balance, and may have the highest interest. These are usually department store cards. It's possible it may not have the highest interest. The lowest balance is the most important criteria. The interest rate is not important. Why, because humans have emotions. We operate from our feelings and only use logic to back up and justify our feelings. My approach works because it is based on how human beings operate. Not how actuaries or engineers operate.

While it may be obvious, I'm going to warn you anyway: Regardless of whether you're at level 2, 3 or 4. **DO NOT ADD ANY NEW DEBT WHILE PAYING OFF YOUR CURRENT OR OLD DEBT.** If you apply the concept of "pay yourself first," you won't have to incur any new debt. If this is not clear, then please purchase the *Wealth On Any Income* book.

On the following chart you see a \$461 balance on a MasterCard at the top. I've put it at the top of the list even though the other cards have a higher interest. Again, *the lowest balance is the most important criteria*. If I add \$100 to my minimum payment of \$20, this balance will be wiped out in about 4 months.

Can you recall having owed money in the past and paying it off in full? How did that feel? Didn't it feel great that you did not have to pay someone anymore? Well, that's how this system works. It's about the good feelings you get paying off your debts. It's about the excitement that comes from seeing results from the actions you take.

The power of this approach comes from the emotional or psychological benefits first, and the economic benefits second. You develop muscles to handle money differently. You make the decisions that, one small step at a time, will lead you to a financial independence.

Applying all the extra money to one creditor is how this tool works. You pick the one with the lowest balance but high interest, and get rid of that first. You quickly eliminated a creditor from your list. This is how you fill out the Debt Elimination Form. You then just work your way down the list.

When the first balance is gone, you then add the minimum payment you just saved, plus the extra \$100 to the next card on the list. In this example, it would be the Department Store; with an \$80 minimum payment, you would add \$100 to it. Now you send \$180 plus the \$20 from the MasterCard bill you don't have to pay anymore. You'll be sending the Department Store \$200 per month. In about 8 more months, instead of an additional 16 months, this debt will be paid off. Next, add \$200 to the \$80 Visa minimum, and pay \$280 per month.

If you follow this example, you'll see all the bills get paid off in 17 months instead of 29 months—a full year of payments wiped out, and over \$440 of interest saved. This is without transferring the balance to a lower rate card or even getting a rate reduction from the current creditors. This is without getting a consolidation loan. Obviously, if you transfer balances to lower interest rate cards this works even better. In this example you will have saved \$440 of interest on a \$4061 balance. That is over a 10% savings. If we are talking about a \$40,000 balance it would be over \$4000 in interest saved.

